

**MICHIGAMME TOWNSHIP**

[illegible][illegible]

	STATE ED	CO - OPER	ISH SCH OPER	ISH SINKING	ISH DEBT	CO VOTED	ISD	SPEC ED	CITY OPER	CITY EX VOT	
51-900-203-00	1349.7	1190.84	1349.69	559.45	724.33	505.36	46.06	1324.19	3024.07	1254.99	11328.68
1% ADMIN FEE											113.28
TOTAL ISH CITY											\$11,441.96

TOTAL TAX PD 2012	HUMBOLDT WITH MILL COMPLETED	TOTAL	\$4,758,951.87
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	STATE ED	CO-OPER	NICE SCH	NICE BND 1	NICE BND 2	CO VOTED	ISD	SPEC ED	TWP OPER	TWP EX VOT	
06-211-001-02	600,000.00	\$529,380.00	1,800,000.00	200,000.00	1,637,300.00	408,830.00	20,480.00	20,480.00	408,830.00	489,490.00	\$6,114,790.00

TOTAL	\$10,873,741.87
LESS VALUE OF MILL CURRENTLY	-114,671.59
	10,759,070.28

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**MARQUETTE COUNTY**  
**SEVERANCE TAX TALKING POINTS AND RECOMMENDATIONS**

- As may already been stated, Marquette County Officials (schools, townships, County) recognize that the basis of a severance tax is to be less complicated by creating a single tax which provides the mining industry more certainty with its taxation.
- However, the devil is in the details and a confusing or complicated severance tax could be just as problematic. Marquette County officials have spent many months doing our best and working in good faith with state and mining representatives in an attempt to help develop a tax law that probably does not make anyone happy, but that is ultimately acceptable to mining, the state, and the locals.
- Mining has been and continues to be an important legacy of the Upper Peninsula. It is ingrained into the culture of our everyday lives. It has been and will continue to be a critical industry for many years to come. That is why it is so important to make sure that all impacted parties will continue to take time to deliberate because mistakes were made in the development of the business tax which has opened the door for some businesses to not pay various state taxes (corporate, income, use taxes).
- One cannot forget that the without the local's support that mining operations would have a much more difficult time moving forward. The local's also provide the many services that allow the mines to function and support the families. These include, but are not limited to police/fire, road maintenance/ airports/ other transportation needs, schools, etc....
- Since we spoke at the House Committee hearing a couple of weeks ago, there have been modifications to the HB 6007- 6012. It is Marquette County's opinion that the current version of the severance tax bill(s) still has work to keep the locals harmless. A solution has been developed that adds a minimum floor to the HB 6008. See handout.

Where are we today?

- From the beginning there has been concern about being held harmless –
  - We feel the original valuation is flawed as it was represented as a partial valuation (letter from Kelli Sobel included). We were further advised verbally from the State Geologist as this being partial too.
  - Frustrated with the inability to all (state/mines) to all work off of the same numbers to determine a hold harmless
  - Therefore, the local officials feel that utilization of the 2012 valuation as the basis of the hold harmless is not representative the true value of the mine.
  - The local officials and Kennebecott have been working towards minimum floor. The minimum floor guarantees a set amount of tax revenue during a five year period. This addition will be discussed in more detail by Jack Vancoevering.

- Local officials do not feel that there should be any repayment of the 2012 taxes. The locals have been held to this valuation since there was no appeal from the locals. Kennecott officials did not appeal either. Therefore: the payment and valuation should stand.
- Education Language – I have provided a copy of the language as prepared by the local ISD. This language is recommended as it will also protect the schools that are out of formula.
- Also note that the Republic/Michigamme schools recently passed a \$4.3 million dollar millage for heating and other facility improvements. This millage was only passed with the understanding that Kennecott Ad Valorem revenues will go towards paying  $\frac{1}{2}$  of the 4 mills.
- If the final version of the severance tax bill takes away revenue from the locals, the burden of the millage will fall on the residents.
- Buffer lands are being redefined in cooperation with Kennecott. The language in the substitute bill is currently not acceptable.
- Rural Development Fund (HB 6009) Marquette officials feels that the Rural Development fund should be modified to include the following changes:
  - 3 of the 5 members should be from the Upper Peninsula
  - The eligibility for funds should be limited to areas with existing or future mining.
  - The "up-to \$250,000" for the surveillance fund should be removed in its entirety.

#### **HB 6008: Severance Tax and Other States:**

- Broad base, low rate. Severance taxes are broad-based taxes imposed on the extraction, production and sale of natural resources as measured by the value and quantity of the resource extracted, produced and sold. The tax is imposed at a low rate, with few, if any, deductions.
- Not in lieu. Severance taxes are generally in addition to all other taxes and replace, if at all, business taxes. For example:
  - Wyoming: the mining severance tax is in addition to general property tax on mines and mining claims. Wyo.Stat. 39-13-104.
  - West Virginia: The severance tax "shall be in addition to all other taxes imposed by law," W. Va. Code 11-13A3
  - Colorado: The coal and mineral severance taxes are "in addition to any other tax." Co. Rev Stat. 39-29-103, 106.
  - South Dakota: Severance taxes are not in lieu of property taxes. S.D. Codified Laws Section 10-39A-7.

- Florida: "The excise tax on the severance of heavy minerals shall be in addition to any ad valorem taxes..." Fla. Stat. 211.3106 (4).
- Utah: "These taxes (metals or minerals severance tax) are in addition to all other taxes provided by law." Utah Code Ann. 59-5-202 (4).
- Montana: The mining severance tax is in addition to property tax imposed on equipment, machinery, improvements and surface structures and in addition to the state tax franchise tax. Mont. Code Ann. 15-35-102 through 104; 15-38-101 through 127. At one time, Montana imposed a severance tax at 30% of the contract sales prices. *Commonwealth Edison v Montana*, 453 US 609 (1981).



## MEMORANDUM

TO: Senator Casperson  
CC: Marty Fittante, Chief of Staff  
FROM: Jack Van Coevering, Miller,  
Canfield, Paddock and Stone  
P.L.C.  
Scott Erbisch, Marquette County  
Administrator  
RE: Minimum Floor to Proposed Severance Tax  
DATE: December 4, 2012

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HB 6008 would replace the general property tax, the corporate income tax and sales and use taxes with a single severance tax. Like other gross receipt business activity taxes, the proposed severance tax is imposed at a rate of 2.75% on the sale price of minerals extracted from producing mines in the state. The Department of Agriculture and the supporting bill sponsor have all claimed that the bill will provide more revenue to local units than would be collected as property tax and thus has proposed that tax revenue would be split; 65% of the revenue would be allocated to local units; 35% would be allocated to the Department of Agriculture's rural development fund.

Consistent with the Department of Agriculture representations, Marquette County has asked that HB 6008 be amended to statutorily include "hold harmless" provisions and ensure that the statute is consistent with the proposed bill's intent. Marquette County has proposed that the Legislature adopt a minimum floor for the proposed severance tax equal to the amount of property taxes that local units would otherwise collect on the value of the mine. The minimum amount would be collected by local units and distributed as property taxes. The anticipated additional severance tax revenue would be distributed under HB 6008's proposed proportional split between local units and the rural development fund.

Marquette's proposal for a minimum amount is consistent with the operation of severance taxes generally. Most states impose the severance tax in addition to other taxes, specifically in addition to the property tax. Marquette County's proposal continues the tax simplicity for mines in Michigan offered under HB 6008 but requires that administratively local units be provided a more stable and reliable revenue floor, in addition to whatever market prices for the minerals may or may not bring.

The proposal also provides an anti-abuse mechanism, currently lacking from HB 6008, that the Legislature has typically provided when it extends tax incentives to businesses. As currently written HB 6008 offers an expansive array of tax incentives. The incentives include: a refund of all property taxes paid in 2012; a reduction by 50% of property taxes in 2013; and an expansive deductions for all operating expenses and transportation costs to the point of sale (this includes out of state federal and all state motor fuel taxes). No industry in the state enjoys a near total exemption from all other taxes and deductions for *all* operating and marketing costs. The receipt of these tax incentives should not be without some guarantee. A minimum floor prevents undercapitalized companies or companies looking for tax planning opportunities from obtaining the reductions and leaving without having sold any extracted minerals.

Finally, the proposal provide against the risk of mistaken or unsupported revenue estimates. The Department has not been able to verify any of its recent projections. One reason is because those future projections (over 7 years) of mineral markets worldwide. A minimum amount insulates local units from world-wide market fluctuations and provides the assurance that long after the local unit's natural resources are permanently depleted and it is faced with environmental clean-up, local units will have the financial ability to confront those certain changes.

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Marquette-Alger RESA  
Severance Tax Legislation  
Michigan House Bill 6008  
Suggested Education Related Changes  
As of 11/29/12

1) Page 8 Section 3 Subsection 7

- add to end of subsection: AS USED IN THIS SECTION, "SCHOOL DISTRICTS SHALL MEAN BOTH SCHOOL DISTRICTS AND INTERMEDIATE SCHOOL DISTRICTS AS DEFINED IN THE REVISED SCHOOL CODE, 1976 PA 451, AS AMENDED. THE DISTRIBUTION OF SUMS COLLECTED PURSUANT TO THIS SECTION TO SCHOOL DISTRICTS SHALL NOT BE AFFECTED BY ANY CHANGES IN THE STATE SCHOOL AID ACT OR FUTURE CHANGES TO THE SCHOOL FUNDING FORMULA'S. THE SUMS COLLECTED PURSUANT TO THIS SECTION SHALL BE INCLUDED WHEN DETERMINING THE STATE AID PORTION OF A SCHOOL DISTRICT'S FOUNDATION ALLOWANCE. IF THE RESULT IS A SCHOOL DISTRICT THAT RECEIVES NO PORTION OF ITS FOUNDATION ALLOWANCE FROM THE STATE, THEN THAT SCHOOL DISTRICT SHALL RECEIVE ITS SHARE OF SEVERANCE TAX. IF AFTER THAT CALCULATION A SCHOOL DISTRICT STILL RECEIVES AT LEAST A PORTION OF ITS FOUNDATION ALLOWANCE FROM THE STATE, THE AFORMENTIONED SEVERANCE TAX VALUE SHALL NOT BE A PART OF THAT SCHOOL DISTRICT'S FOUNDATION ALLOWANCE CALCULATION AND NO PORTION OF SAID SUMS COLLECTED PURSUANT TO THIS SECTION SHALL BE PAID TO THAT SCHOOL DISTRICT. ANY SEVERANCE TAX PORTION NOT PAID TO A GENERAL POWERS SCHOOL DISTRICT AS A RESULT OF THE AFORMENTIONED FORMULA CALCULATION SHALL BE PAID TO THAT SCHOOL DISTRICT'S INTERMEDIATE SCHOOL DISTRICT.

SEVERANCE TAX SHALL BE PAID FOR ALL SCHOOL DISTRICTS CURRENT AND FUTURE DEBT MILLAGES AS IT WOULD HAVE BEEN PAID UNDER THE CURRENT AD VALOREM TAX.



RICK SNYDER  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

ANDY DILLON  
STATE TREASURER

February 17, 2012

Howard Robare, Assessor  
Michiganme Township, Marquette County  
300 Riihnen Road  
Negaunee, MI 49866

Dear Mr. Robare:

In accordance with MCL 211.24, the State Geologist has reported his determination of true cash value for the Kennebec Eagle Mine in Michiganme Township. Mr. Fitch reported to the State Tax Commission that he has determined the true cash value to be \$191,466,000. Mr. Fitch has indicated that this valuation represents a partial completion of the mine and has further indicated that this valuation is entirely for Michiganme Township and does not include the value of the Humboldt Mill in Humboldt Township.

The State Tax Commission certified this value at their meeting on February 15, 2012 and in accordance with MCL 211.24 is certifying this assessment to you as the assessor for Michiganme Township.

Please note for your information that MCL 211.24 also indicates:

The state tax commission, as early as is practicable before February 20, shall certify the assessment of the property to the assessor of the township or city in which the property is situated, who shall for the mineral properties and mineral rights that are owned separate from the surface rights on the property assess each to the owner at the valuation certified to him or her. However, an adjustment to the value certified by the state tax commission may be made by the assessor of the township or city to reflect any general adjustment of assessed valuation from the immediately preceding year not included in the state tax commission computation. The assessor shall determine the true cash value of the surface rights and assess the value of the surface rights to the owner. The assessment upon the metallic mining properties and mineral rights may be altered from year to year regardless of whether any previous assessment has been reviewed by the state tax commission. The assessor or the owner of any interest in the property assessed may appeal the assessment and valuation of the property as determined by the board of review to the state tax commission which shall review the assessment and valuation as provided in section 152.

Sincerely,

A handwritten signature in dark ink, appearing to read "Kelli Sobel".

Kelli Sobel, Executive Secretary  
State Tax Commission

Enc: Memo's from Mr. Fitch to the State Tax Commission



## State of Michigan - Senate Hearing on the proposed Severance Tax

December 5, 2012

Good afternoon, my name is Dave Anderson. I currently serve as the Director of Health, Safety, Environment and Public Relations for Orvana Resources US Corp, a subsidiary of Orvana Minerals. Orvana is currently in the process of developing a proposed copper mine in the Western Upper Peninsula of Michigan called the Copperwood Project. Many of the necessary permits to develop the project have been obtained. When all necessary permits are received, Orvana will be in a position to secure financing and initiate construction, should the Board of Directors decide the investment is prudent and feasible. As investors and the Board of Directors consider the merits of the project, a stable, fair and predictable tax regime in the state of Michigan would certainly assure all concerned that future investments in Michigan are wise and face manageable levels of risk.

Orvana offers the following comments today in support of the bills before the committee.

The Copperwood Project has been actively seeking permits to develop a mine in Gogebic County since 2008. If advanced, the project will employ an estimated 450 persons for a two year construction period and go on to retain an estimated 300 persons for an additional 13 years. Independent economic modeling estimates the project will inject over \$2 billion dollars into Michigan's economy over the life of mine.

The project has received letters and resolutions of support from all levels of government in and around Gogebic County, including all of the respective townships, cities and neighboring units of government. All of Michigan's elected officials (state and federal) representing this area have supported the project to date, including Governor Snyder.

A stable and fair taxation system is warranted to limit risk to both investors and residents of the state of Michigan. We believe the current bills before this committee accomplish that goal.

First, I would like to explain why the current "Ad Valorem" system is problematic and antiquated:

The old taxation method:

- Highly subjective, difficult to estimate, brings uncertainty to investors and government entities
- Requires taxes to be paid in advance of operations and negatively impacts cash flow model
- Encourages aggressive mining of reserves and discourages exploration and expansion

If the bills are enacted, we believe that a Severance tax approach will:

- It is predictable, adds stability to investment decisions and government budgeting
- It is straight forward, relatively easy to model and administer
- Stabilizes funding for schools, counties and townships
- The state and local units benefit directly on strong markets, survive market declines
- Encourages development and exploration investments
- Provides other communities in Michigan with infrastructure development funding and broadens the benefits of mining to all forms of economic development

My name is Gerry Corkin and I have served 27 years on the Marquette County Board and 22 years as chairman.

I am here to talk about the important impact that bills 6007-6012 will have on tax revenues in Marquette County.

I submitted affidavits in two court cases involving Kennecott Minerals on the importance of the local property tax revenues. \$500,000 will be needed by 2014 to support the airport at K.I. Sawyer. The Marquette County Road Commission has annual road needs of 150 million that they try to meet with an 11 million dollar budget. We are currently paying 1 million plus dollars for unfunded mandated from the State of Michigan in Marquette County. These examples illustrate the importance of local property tax dollars (severance tax) being available for local services in Marquette County, Marquette County Schools and Marquette County Townships.

Using Kennecott numbers and state geologist Hal Fitch's discount rate of 18%, we come to a market value of 199 million which leaves 8 million missing from Dept. of Agriculture and Dept. of Treasury numbers.

Following speakers will address these numbers and show why these bills don't hold Marquette County, Schools, and Townships financially harmless. They will also state multiple reasons why these bills are badly constructed.

Taxpayers in the Republic Michigamme School District voted in 4 mills for heating renovations with the understanding that Kennecott's payment of ad valorem tax on the Eagle Mine would cover two mills that were approved. This legislation will change that and would put the entire 4 mills on the taxpayers in Republic and Michigamme.

Senator Casperson and Aide Marty Fittande have spent tens of hours learning in detail about these bills. I believe they will be very well informed to make constructive improvements to these bills.